

## TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	2
LOCAL OFFICE RESPONSE	2
FINDINGS AND RECOMMENDATIONS - COMPLIANCE	
Separation of Duties - Disbursements	2
Bank Reconciliation	3
Payment Authorization Files	3
Supporting Documentation for Payments	3-4
Medical Authorization Files	4
Original FIA-93	4
Controlled Document Log	5
Pending File of FIA-138's	5
CIS Security Agreements	6
Control of Bus Tokens	6
Medical Transportation	6-7
RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS	
CIS Status Codes	7-8
Entry of FIA-849's on CIS	8

Unauthorized Checking Account	8
Monitoring Telephone Usage	9

## **INTRODUCTION**

The Office of Internal Audit performed an audit of Mason County FIA for the period October 1, 1997 through June 26, 1998. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Mason County FIA had 35 full time equated positions (FTE's) at the time of our review. Mason County FIA provided assistance to an average 2,340 recipients per month during FY 1997, with total assistance payments of \$3,150,403 during that year.

## **SCOPE**

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Mason County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
ENP/SER Payments	Phone Usage
Medical Transportation	

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Mason County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

## **LOCAL OFFICE RESPONSE**

The management of Mason County FIA has reviewed all findings and recommendations included in this report. They indicated that they are in general agreement with the report.

## **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Mason County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

### **Separation of Duties - Disbursements**

1. Mason County FIA did not properly separate the cash disbursements duties. Our review disclosed that the local office did not have an independent employee record the Sign-O-Meter reading at the end of the day, as required by Accounting Manual Item 410.

WE RECOMMEND that Mason County FIA have an employee independent of the check preparation process record the Sign-O-Meter reading at the end of the day.

### **Bank Reconciliation**

2. Mason County FIA did not have an independent person prepare the bank reconciliation. The employee who prepared the bank reconciliation also performed the inventory and reconciliation of controlled documents, including the blank checks. Accounting Manual Item 405 states that for proper internal controls, the person preparing the bank reconciliation must not be responsible for check writing, signing, or control of blank check inventory.

WE RECOMMEND that Mason County FIA have someone who does not have control of blank checks perform the bank reconciliation.

#### Payment Authorization Files

3. Mason County FIA did not maintain the files of Supplemental Payment Authorizations (FIA-13) and Authorization Invoices (FIA-849) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local office was maintaining the FIA-13's in date order, and the FIA-849's attached to the monthly reconciliation report. Maintaining the FIA-13's and FIA-849's in either alphabetical or case number order provides an audit trail to easily detect how many supplements or emergency payments a client has received, and makes the FIA-13's and FIA-849's easy to retrieve if needed at a later date.

WE RECOMMEND that Mason County FIA maintain FIA-13's and FIA-849's in either alphabetical or case number order.

#### Supporting Documentation for Payments

4. Mason County FIA did not attach original supporting documentation to the FIA-849 on file in the Accounting Office, as required by Accounting Manual Item 404. Rather, the local office was making a copy of the bill and returning the original to the client. Attaching

the original bill to the fiscal office copy helps to prevent duplicate payments, and helps to ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Mason County FIA attach the original invoice or other supporting documentation to the Accounting Office copy of the FIA-849.

#### Medical Authorization Files

5. Mason County FIA did not maintain separate files for the Medical Authorization (FIA-93 and FIA-93A) and Authorization Invoice (FIA-849) forms, as required by Accounting Manual Item 404. Rather, the local office was filing the Medical Authorization forms with the FIA-849's. Filing the FIA-93's separately provides a file for each program.

WE RECOMMEND that Mason County FIA maintain separate files for the FIA-93's and FIA-849's.

#### Original FIA-93

6. Mason County FIA workers was not always preparing Medical Authorization (FIA-93 and FIA-93a) forms to authorize payments, as required by Accounting Manual Item 404. Rather, the local office workers sometimes signed a screen dump, and used that in place of the FIA-93's. The FIA-93's provide documentation that services were provided.

WE RECOMMEND that Mason County FIA workers prepare FIA-93's or FIA-93A's to authorize all medical payments.

#### Controlled Document Log

7. Mason County did not properly control blank documents. We noted that the local office was not keeping the posting up-to-date on the Controlled Document Log (FIA-4070) for

Official Field Receipts (FIA-3543), Voucher Checks (FIA-1802) Purchase Order/Invoices (FIA-2083), Temporary Food Stamp Identification Cards (FIA-183A), and Medical Authorization (FIA-93) forms, as required by Accounting Manual Item 403. Up-to-date posting of the Controlled Document Log and preparation of the Monthly Controlled Document Inventory and Reconciliation help to ensure that loss, theft, or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that Mason County FIA keep the posting of the Controlled Document Log up-to-date.

#### Pending File of FIA-138's

8. Mason County FIA did not keep a pending file of Action Taken on State Warrants by Local Offices (FIA-138) for warrants that were awaiting a decision by the worker on the disposition of the warrant, as required by Accounting Manual Item 462. A pending file is necessary for the fiscal office to control the warrants, and follow up with the workers when they do not return their copy of the FIA-138 with the disposition information within 10 working days of notification by the fiscal office.

WE RECOMMEND that Mason County FIA maintain a pending file of FIA-138's and dispose of warrants after 10 working days of notification to the worker.

#### CIS Security Agreements

9. Mason County FIA did not have updated CIS Security Agreements (FIA-3974A) on file for 26 of its employees, as required by L-Letter 97-063. The Security Agreements were on file, however, when the employees' status changed the local office was crossing out the old status and writing in the new one. A new Security Agreement should be prepared and

signed each time an employee's status changes to document that the employee is aware of the security requirements for their current access level.

WE RECOMMEND that Mason County FIA prepare a new CIS Security Agreement each time an employee's access level on CIS is changed.

#### Control of Bus Tokens

10. Mason County FIA did not control the inventory of bus tokens, as required by Accounting Manual Item 403. Bus tokens were kept in the safe, but no inventory records were maintained. Because bus tokens are negotiable, they should be controlled to prevent misuse.

WE RECOMMEND that Mason County FIA control the inventory of bus tokens.

#### Medical Transportation

11. Mason County FIA did not properly document Medical Transportation payments. We reviewed 10 cases and found that four cases were missing the Medical Needs Statement (FIA-54A). Program Administrative Manual (PAM) Item 825 and Accounting Manual Item 416 require that a Medical Needs statement be signed by the client's doctor annually to provide an audit trail for transportation expenses.

WE RECOMMEND that Mason County retain the FIA-54A's in the Medical Transportation casefiles.

### **RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS**



The following are areas where we have identified a control weakness at Mason County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### CIS Status Codes

12. One fiscal clerk at the Mason County had an FLM status code on the Client Information System (CIS), and the other had CRS status. This status code allows the fiscal clerks to make changes to client cases and then process payments and issue food stamps to those same cases. We also found that the supervisors who reviewed the Transaction Control Listing (MA-010) had FIS and CRS status. These status codes would allow the Supervisors to process case transactions without an independent review of the transactions. In addition, two clerks and the departmental analyst had FLM status.

WE RECOMMEND that Mason County FIA change the fiscal clerks to inquiry only status on CIS, or customize their status so that they cannot open or change cases or authorize payments or food stamps.

WE ALSO RECOMMEND that Mason County FIA either change the Supervisors to inquiry only status or have an independent person review all transactions processed by the supervisors on CIS.

IN ADDITION, WE RECOMMEND that Mason County FIA review the job duties of the clerks and departmental analyst, and ensure that their CIS status is appropriate for their job duties.

#### Entry of FIA-849's on CIS

13. Mason County FIA did not properly separate duties related to FIA-849 payments. The fiscal clerks at Mason County FIA occasionally entered FIA-849 payments on CIS. These individuals also performed the reconciliation of the FIA-849 Issuance Report (ES-440). This would allow the fiscal clerks to process FIA-849 payments with no opportunity for independent review of the transaction.

WE RECOMMEND that Mason County FIA discontinue the practice of the fiscal clerks entering FIA-849 payments on CIS.

#### Unauthorized Checking Account

14. Mason County FIA had a separate checking account for a trust fund that was to be used for specific purposes. Local offices are not to have checking accounts outside of the Social Welfare Fund per a 5/4/1994 memo from the Directors of the Family Services Administration and Financial and Internal Control Administration. Funds from this account should be deposited into the Social Welfare Fund in an account that allows the funds to be spent in accordance with the requirements established by the donor for the expenditure of the funds.

WE RECOMMEND that Mason County FIA close its separate account and deposit those funds in an appropriate account in the Social Welfare Fund.

#### Monitoring Telephone Usage

15. Mason County FIA does not have a designated staff person to monitor telephone usage. The phone bills are received and fiscal pays the bill but a routine review of the phone bill for high charges is not being done currently. Reviewing the phone bills for excessive charges will provide better control over phone usage.

WE RECOMMEND that Mason County FIA appoint a staff person to review the phone bills for high use charges.